

# **THE CRISIS OF VISION IN MODERN ECONOMIC THOUGHT**

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**CAMBRIDGE**  
UNIVERSITY PRESS

Published by the Press Syndicate of the University of Cambridge  
The Pitt Building, Trumpington Street, Cambridge CB2 1RP  
40 West 20th Street, New York, NY 10011-4211, USA  
10 Stamford Road, Oakleigh, Melbourne 3166, Australia

© Cambridge University Press 1995

First published 1995  
Reprinted 1996 (thrice)

*Library of Congress Cataloging-in-Publication Data is available.*

*A catalog record for this book is available from the British Library.*

ISBN 0-521-49714-0 hardback  
ISBN 0-521-49774-4 paperback

Transferred to digital printing 2002

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## CHAPTER 1

### WHAT IS AT STAKE

#### I

Our intentions in writing this book are two. The first may command disagreement, but not disapproval. It is to place recent developments in macroeconomics into the context of the history of modern economic thought. This seemingly harmless pedagogical exercise, however, conceals a disturbing problem. Let us describe it in terms of the first-year graduate course in the history of economic thought that we have frequently co-taught.

The course covers two semesters, the first of which deals mainly with the dramatic scenarios of the Physiocrats, Smith, Ricardo, Marx, and Mill. This part of the course unfailingly captures the interest of its audience. Who can resist the appeal of these ventures in imaginative logic, in which sociological and political considerations interact with a market-constrained drive for capital to yield the varied trajectories of capitalism that the great economists foresaw?

The second semester begins with the formulations of Jevons, Edgeworth, and Walras. There is, initially, a sense of discontinuity as the narrower concerns of marginalism displace the broader objectives of classical thought, but the audience soon recognizes the underlying continuity of a new “chapter” in the ongoing history of economic thought. The new chapter is more finely analytical in style and less explicitly sociopolitical in content than its predecessor, but it also contains two attributes that legitimate its inclusion within the meta-narrative we call the history of economic thought. The first is an explicit concern for the relevance of its content to the “real” world.

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What is surprising is that the new chapter at first seems to lack this attribute. It is true that Jevons writes on the coal question and Edgeworth on the distribution of income required to accommodate the differences in the sensibilities of the various classes and the two genders, but these writings are peripheral to their central, highly abstract concerns with utility; whereas Walras, in our time the commanding figure of the movement, is quite indifferent – even hostile – to the practical application of general equilibrium analysis to political life, despite his own lifelong interest in questions of agrarian socialism.<sup>1</sup>

Yet this seeming exception to our rule that regnant ideas must be relevant to lived economic experience is in fact another vindication of it. Jevons and Edgeworth are key figures in the introduction of marginal analysis to economics, but their statement of it did not actually displace the Millian center of gravity until Marshall's powerful text became its universally recognized exposition toward the end of the nineteenth century. Even more telling, the identification of Walras's name with marginalism would not become commonplace until his highly disengaged approach became a leading force in the postmarginalist, post-Marshallian, post-Keynesian era that will be a central focus of our attention in the chapters to come.

A second, equally important attribute lies in the presence of an identifiable central focus to the economic thought of the period. As we shall see, this focus lies not so much in the analytical framework its authors employ, or in the conclusions they reach, but in the "vision" – the often unarticulated constructs – from which they start. Sometimes, although not necessarily, this vision is incorporated in a seminal synthetic presentation. In the first semester this is accomplished in John Stuart Mill's *Principles of Political Economy*, which projects an eclectic version of classical

1. See, for example, the biographical accounts of Jevons, Edgeworth, and Walras in *The New Palgrave: A Dictionary of Economics* (New York: Macmillan, 1987).

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thought that dominates the field from 1848 to 1870; in the second semester, a similar function is performed for the marginalist period by Alfred Marshall's *Economics*, which rules the roost from 1890 until the 1920s.

There follows Keynesian economics, the equivalent of the French Revolution, in the second semester. The focal point again changes, but once more, the two identifying attributes are present: Keynesian economics is quintessentially concerned with the real-world applications of its analytical content, and after a period of confusion, a consensual center emerges, for which Samuelson's *Principles of Economics* may be said to constitute its Millian or Marshallian text. "Keynesian economics" thereupon dominates and gives unity to the economic discourse of its era, as did "marginalism" and "classical political economy" in the eras that preceded it. This is not to claim that other economic schools could not be featured in this overall narrative, Marxian or institutional economics being obvious candidates. It is to make the point that however the chapters of the narrative are identified, they must all manifest the properties of real-world applicability and centrality of focus.

It is this point that sets the stage for the initial problem to which this book is addressed. It is to account for the absence of such a distinct "chapter" in the years that follow the Keynesian era – let us say, roughly, the last quarter century. Thus our bland intention of finding a place for contemporary economics within the larger history of the subject turns out to be much more contentious than might have been anticipated; and leads, indeed, to the second of our larger purposes, whose argumentative character will be immediately self-evident. This is to criticize the direction of economic theorizing in America. The thrust of our criticism is already implicit in the title of our book, and now becomes explicit in the first of the attributes that we have ascribed to economics up to the post-Keynesian period – namely, its continuously visible concern with the connection between theory and "reality." By way of contrast, the mark of modern-day economics is its

extraordinary indifference to this problem. At its peaks, the “high theorizing” of the present period attains a degree of unreality that can be matched only by medieval scholasticism. The second purpose of our book must therefore be apparent. It is to serve as a catalyst for change with respect to that attitude.

The Archimedean point to which we shall direct our criticism has already been announced: It is the all-important function of vision for the enterprise of analysis itself. This is a matter to be explored intensively as we go along, but an initial statement seems in order. By analysis we mean the process of deducing consequences from initial conditions, of attending scrupulously to chains of reasoning, and of guarding against the always present temptation to substitute demagoguery for intellectual exchange. By vision we mean the political hopes and fears, social stereotypes, and value judgments – all unarticulated, as we have said – that infuse all social thought, not through their illegal entry into an otherwise pristine realm, but as psychological, perhaps existential, necessities. Together vision and analysis form the basis of everything we believe we know, above all in that restricted but extremely important area of knowledge in which we seek to understand, and where possible to change, the terms and conditions of our collective lives. This is the area to which economic investigation directs its efforts and, accordingly, to which our own critique will be directed.

At the heart of our argument is the contention that “vision” sets the stage and peoples the cast for all social inquiry. One would not have to make such an assertion for the avenues of exploration that we call politics or sociology, for there the elements of vision – our individual moral values, our social angles of perception – are unavoidable starting points for what is to follow. Indeed, vision constitutes the all-important terrain over which intellectual contest is waged in political and sociological controversy. The reason is not that coherence, logic, and other attributes of analysis are unnecessary to support political or sociological inquiry.

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It is that politics and sociology – and beneath them, psychology in all its forms – do not possess the lawlike regularities of behavior that demarcate economics as a field of social analysis, investing it uniquely with the characteristics of a social “science.” Consequently, chains of reasoning play a relatively minor role in political, sociological, and psychological inquiry compared to that which they play in economics. In no way does this difference make economics prior to, or deeper than, its neighboring approaches, but it does endow it with the capability of developing causal sequences that are often their envy and despair. Analysis has thus become the jewel in the crown of economics. To this we have no objection. The problem is that analysis has gradually become the crown itself, overshadowing the baser material in which the jewel is set. To this we do indeed object, for without the setting there would be no crown.

Our book is not, however, primarily intended to explore the origins or forms of the numerous visionary underpinnings of economics. Its purpose is much more polemical and political. It is to lay bare what we believe to be the disastrous consequences of the failure of the economics profession, especially in the United States, to bear in mind the inescapable presence of vision in defining the tasks that economic inquiry arrogates to itself. These tasks – many in the small, but unitary in the large – entail understanding the central forces within social formations that manifest these regularities. With only trivial exceptions these have been capitalist social formations. Although no doubt the psychic energies that play so large a role within capitalism are discoverable to some extent in all human society, in those other societies the energies will be differently experienced, evaluated, and directed. Thus, what prevents economics from claiming for itself a genuinely universal character is that the vision by which we “see” and “understand” capitalism is not, and cannot be the vision by which we would see and understand tribal, imperial, feudal, or communitarian societies, *if we were ourselves members of those societies*. No analysis of the forms and dy-

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namics of capitalism can hope to be more than superficial if that historical specificity is not made a primary concern.

Yet it is the extraordinary fact that one can only rarely find in the *American Economic Review*, or any of the other prestigious journals of the profession, reference to the specifically capitalist nature of the “system” whose properties are under examination. This omission would be instantly noted were the journals that discussed medieval life never to include the word “feudalism.” But in the case of modern economics, the omission of that central identificatory term is taken for granted, never noted, and above all, not seen as itself constituting an important element of the vision that underlies most mainstream inquiry. For it must be clear by now that our concern is not the absence of vision within contemporary economics; no social analysis can be without its “visionary” basis. Our concern, and the change at which our catalytic effort is aimed, is the widespread belief that economic analysis can exist as some kind of socially disembodied study.

This omission has two consequences. The first concerns the extraordinary combination of arrogance and innocence with which mainstream economics has approached the problems of a nation that has experienced twenty years of declining real wages, forty percent of whose children live in “absolute” poverty, and which has endured an unprecedented erosion of health, vacation, and pension benefits.<sup>2</sup> The commitment to full employment legislated in 1946 has been “honored” in these socially destructive years not by vigorous employment-generating programs such as the reconstruction of its cities, but by redefining “full” employment as a higher level of unemployment. New Classical theory, the most recent arrival on the scene, asserts the “optimality” of business cycles. Other, contending theories routinely advise against policy action intended to channel or oppose the spontaneous dynamics of the system.

2. See John Eatwell, ed., *Unemployment in the 1990s* (Armonk, NY: M. E. Sharpe, 1995).

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Much of this extraordinary indifference can be traced to the starting point from which modern analysis proceeds. This is the assumption that forces located within “the individual” constitute the conceptual core of economics, a core that is itself immune to further deconstruction, but that can be taken as the foundation on which the sciencelike properties of the discipline rest. As a recent graduate text in microeconomics states, “What most economists would classify as *noneconomic* problems are precisely those problems that are incapable of being analyzed with the *marginalist* paradigm.”<sup>3</sup>

Such a statement, along with the microstructure built on it, is more than an analytical device. It is part – operationally, a very important part – of a vision, and moreover a part that performs a conceptual operation Procrustes would have envied. We shall be looking more carefully into the constitutive elements of that larger vision later, but it will convey our meaning if we describe it as a combination of the views of Candide and Dr. Pangloss, a construct of which Marx would have asked, In what never-never-land do such shadow-creatures live?

Our dual objectives of placing recent developments in the context of the history of economic thought and evaluating the state of the discipline as a whole in its present condition are therefore both complementary and interdependent. The history of economic thought is the only “field” in the discipline of economics that allows – or rather, requires – viewing its accomplishments as totalities, not individual parts, and that focuses on the question of the internal divisions as well as the overall trajectory of the social formation as a whole. Our estimation of the dominant vision in contemporary thought is thus diminished by comparison with the visions underlying the large-scale scenarios of the past. What is notable, as we examine this spectrum of visions is the

3. Eugene Silberberg, *The Structure of Economics: A Mathematical Analysis*, 2nd ed. (New York: McGraw Hill, 1990), p. 2.

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poverty of reach and depth associated with modern theory. Surely the recognition of the inextricably social roots of all behavior leads to the view that macrofoundations must precede microbehavior, not the other way around, as modern economic thought perceives the issue. Our last, and most contentious point of all, is that we further believe that unless the social setting of economic behavior is openly recognized, economics will be unable to play a useful role as explicator of the human prospect. Once the dismal science, it will become the irrelevant scholasticism. That is what is at stake.

In this book we concentrate on American and British economic thought, to the neglect of Austrian, Scandinavian, French, German (Marxian), Japanese, Italian, and yet other formulations of vision and analysis. This is for two reasons: First, we are writing for a predominantly American and English audience, whose interests, like our own, lie in the resolution of our shared difficulties. In addition, this branch of the History of Economic Thought, although by no means as powerful abroad as it is in the United States and England, nonetheless radiates a worldwide influence. Thus, we believe that the construction of a new "Anglo-American" Classical Situation may have constructive repercussions elsewhere.